

VZCZCXRO6842
PP RUEHCN RUEHVC
DE RUEHGH #0365/01 2320824
ZNR UUUUU ZZH
P R 200824Z AUG 09
FM AMCONSUL SHANGHAI
TO RUEHC/SECSTATE WASHDC PRIORITY 8221
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEHIN/AIT TAIPEI 1953
RUCPDOG/USDOC WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHGH/AMCONSUL SHANGHAI 8872

UNCLAS SECTION 01 OF 04 SHANGHAI 000365

CODEL
SENSITIVE
SIPDIS

STATE FOR EAP/CM AND EEB

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [ETRD](#) [ETTC](#) [OVIP](#) [CH](#)

SUBJECT: SENATOR NELSON HEARS UPBEAT ASSESSMENT OF CHINA ECONOMIC OPPORTUNITIES FROM U.S. BUSINESS, SHANGHAI PEOPLE'S CONGRESS

SHANGHAI 00000365 001.2 OF 004

(U) This message is sensitive but unclassified and for official use only. Not for distribution outside of USG channels.

11. (SBU) Summary: In an August 10 roundtable discussion with Senator Bill Nelson, representatives of 20 American Chamber of Commerce in Shanghai (AmCham) member companies responded to Senator Bill Nelson's (D-FL) queries regarding opportunities for U.S. businesses, technology transfer, corruption, and product quality. AmCham members indicated American companies doing business in China can overcome the ongoing risks and defeat bureaucratic obstacles by developing knowledge of the market, staying ahead of the innovation curve, and maintaining oversight of local partnerships. AmCham members also concurred with Senator Nelson's opinion that AmCham needed to do more to overcome negative perceptions in the U.S. of China's current business environment and lack of American confidence in China's oversight of consumer product safety. During an August 11 meeting with an official of Shanghai Municipal People's Congress, Senator Nelson heard a reassuring message on Shanghai's prospects for economic recovery. End Summary.

OPPORTUNITY, FOR THOSE WILLING TO TAKE IT

12. (SBU) During an August 10 roundtable discussion with visiting Florida Senator Bill Nelson, Shanghai AmCham members described a challenging business environment, but one still laden with opportunity. One representative of a U.S. law firm explained that despite massive amounts of Chinese state funds supporting the roll-out of green technology, foreign companies face market penetration obstacles. He described how foreign involvement in green-technology projects can be restricted through hard limits, such as manufacturing quotas requiring the majority of parts be made in China, and also through soft limits, such as guided selection of bidders for large projects. Nevertheless, the law firm representative stated that foreign firms still make the highest quality products in the green-technology sector, and Chinese developers remain attracted to quality, especially for high-visibility projects. The managing director of a logistics

company cited the success of Westinghouse in the nuclear energy sector as an example of the potential benefits of investing in China. Westinghouse's multi-billion-dollar contract to build nuclear power plants in China has created thousands of jobs in the U.S., he claimed.

13. (SBU) A trading company representative described emerging opportunities for U.S. small and medium enterprises (SMEs) as the next frontier of U.S.-China business relations. He explained that while larger companies have already established a presence in China, the potential for small cap companies to supply second and third tier Chinese companies with quality products remained. To encourage the entrance of SMEs into the Chinese market, he also cited the importance of generating support for legislation such as the Kirk-Larsen Bill, which is designed to help American businesses access the Chinese market and maintain competitiveness through export promotion, diplomatic expansion, energy cooperation, and language training. AmCham members concurred that this type of legislation will allow U.S. businesses to overcome the initial barriers to entry in the Chinese market and establish a presence in the world's largest growth market.

14. (SBU) Two AmCham officers described the diverse opportunities available for U.S. companies with regards to the 2010 Shanghai World Expo. They cited a recent survey which indicated that the U.S. pavilion is number two on the list Chinese people most want to visit, second only to the Chinese pavilion. With a projected Expo attendance of 70 million, this guaranteed audience would make the Expo an ideal forum for companies to display products and introduce themselves to China's growing market, they said, adding that U.S. cities and states would be able to promote

SHANGHAI 00000365 002.2 OF 004

themselves as investment and tourism destinations.

STAYING AHEAD OF THE INNOVATION CURVE
SOLVES THE TECHNOLOGY TRANSFER PROBLEM

15. (SBU) Senator Nelson expressed concern about cultivating future Chinese competitors as a byproduct of current U.S.- China private sector technology-sharing partnerships. AmCham members concurred that this was indeed a concern, but that the alternative was to hand over business to current global competitors from European and Asian countries. Several business representatives cited the aviation sector to describe current technological partnership opportunities for U.S. businesses. They explained that although China has clearly stated its intent to eventually compete with Boeing and Airbus on a global scale, their airplanes currently under development contain a significant percentage of U.S and foreign multinational content. China's first generation regional aircraft contains almost 40 percent U.S. content, and a planned second-generation and slightly larger regional aircraft is predicted to contain an even higher percentage of U.S. content. This arrangement translates directly into substantial U.S. jobs and revenue for U.S. companies.

16. (SBU) The representative of a major U.S. manufacturing firm cited his company's experience with locomotives as an example of how U.S. companies can succeed even in industries where Chinese

competitors have used tech-transfer projects to develop their own national industry. He explained that since his firm entered the locomotive market in China 20 years ago, Chinese companies have used tech-transfer partnerships to acquire and develop advanced locomotive technology. Despite the maturation of the Chinese locomotive industry, today that company sells more locomotives to China than ever before, he added. The manufacturing firm's representative attributed this success to his company's continuing innovation and reputation for high-quality and anticipated similar market development in other sectors such as aviation.

CORRUPTION LESS PREVALENT IN DEVELOPED REGIONS

17. (SBU) Senator Nelson inquired as to the effect of corruption and bribery on U.S. business interests in China. AmCham members stated that corruption remains an important problem when doing business in China. However, as the Chinese government increases its anti-corruption efforts, as U.S. companies educate themselves on the issue, and as Chinese companies globalize, corruption is becoming less of a hindrance and is starting to retreat to certain geographic regions and sectors of the economy, members claimed. For example, the logistics firm representative cited results of a recent survey of AmCham companies that found corruption was no longer a top concern for many companies operating in the developed coastal regions of China. However, for companies operating in the less-developed inland regions, corruption remained a significant problem, he added. A consulting company representative also noted that bribery and corruption are becoming more industry specific, with continued concerns in industries deemed sensitive by the Chinese government. Another participant in the discussion explained that U.S. companies' compliance with the U.S. Foreign Corrupt Practices Act is typically determined by the leadership of the company and how it educates its expatriate and foreign national employees with regard to local and U.S. anti-corruption laws.

SHANGHAI 00000365 003.2 OF 004

PRODUCT QUALITY AND COUNTERFEIT GOODS: "A TWO-WAY STREET"

18. (SBU) Senator Nelson raised the issue of Chinese product safety and quality control, and the protection of intellectual property rights. The Senator described the toxic effects of tainted Chinese drywall used in the construction of homes in Florida and elsewhere in the U.S., as well as his involvement with the Chinese toxic-toy scandal, and asked AmCham members how these types of product quality issues could be avoided in the future. AmCham members acknowledged the fault of Chinese producers in manufacturing faulty or unhealthy products, but also described product quality disputes as a "two-way street" and pointed a finger at U.S. importers. The representative of an engineering firm emphasized that companies ordering products from China need to ensure that their suppliers are meeting the specifications set out in the terms of their contracts, which would require "on-the-ground" presence by U.S. companies and a more rigorous inspection regime. A representative of a risk management and business intelligence firm noted that U.S. firms typically perform more due diligence on their partnerships with other U.S. firms than they do with their Chinese partners. He

maintained that U.S. companies conducting simple reputational due diligence and background checks on Chinese partners could reduce product quality problems and render the Chinese manufacturing market more efficient.

¶9. (SBU) On the issue of counterfeit products, AmCham members were unanimous in acknowledging recent efforts by the Chinese central government to reduce the production of counterfeit goods. However, they also agreed that the central government's ability to enforce new regulations is limited and often is faced with diverging interests at the local government level. The representative of an express delivery firm described his successful cooperation with the central government on identifying shipments of certain counterfeit goods. However, he said, since local officials keep one eye closed to counterfeit production in order to protect local industries, ample room for improvement remains.

CHINA BUSINESS ENVIRONMENT: IMAGE PROBLEM CONTINUES

¶10. (SBU) AmCham officials asked Senator Nelson about the perception in the U.S. of doing business in China. The senator highlighted varying perceptions on the ease of doing business in China. AmCham acknowledged it needed to tackle this problem with greater veracity since the majority of members present clearly viewed China as an indispensable market with latent potential, notwithstanding certain difficulties of doing business.

NO TAX REVENUE HERE

¶11. (SBU) Senator Nelson challenged AmCham members to suggest ways the U.S. government could generate more tax revenue as the U.S. economy begins to recover and major domestic programs such as healthcare will need to be funded. One AmCham official stated that the U.S. Government should not generate tax revenue by raising taxes on U.S. citizens living abroad, and that allowances under Section 911 of the tax code, which permits U.S. expatriates to protect some income from taxation, should be

SHANGHAI 00000365 004.2 OF 004

expanded. Another company representative suggested that the USG should focus on providing incentives to attract more foreign companies and FDI to the U.S., which would have the combined effect of creating more jobs, generating tax revenue, and maintaining the U.S.'s position as the number one location in the world for FDI.

REASSURING MESSAGE ON SHANGHAI'S ECONOMY

¶12. (SBU) Yuan Yixing, Chair of the Finance and Economy

Committee of the Shanghai Municipal People's Congress (SMPC), told Senator Nelson during an August 11 meeting that Shanghai is facing some tough challenges as a result of the global financial crisis, but that the people of Shanghai are confident things will improve. For now, Shanghai's situation is worse than elsewhere in China, because Shanghai is highly dependent on overseas markets. The recovery will take time -- perhaps as long as several years -- because Shanghai must shift towards higher-technology and services industries for new growth, said Yuan. In the end, though, one of Shanghai's strengths is its openness to the outside world, as shown in the international architectural styles prevalent in the city. Yuan said it reminded him of a quote from Confucius, "How pleasant it is to have friends come from afar."

113. (U) Senator Nelson's delegation has cleared this message.
CAMP